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The New York Times

Face Lift at Board of Trade: High Tech, Say Hello to Primal Instinct

Barnaby J. Feder. New York Times. (Late Edition (East Coast)). New York, N.Y.: Feb 17, 1997. pg. 41

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Subjects: [Technology](#), [Renovation & restoration](#)
Companies: [Chicago Board of Trade](#)
Author(s): [Barnaby J. Feder](#)
Article types: News
Dateline: CHICAGO, Feb. 16
Section: 1
Publication title: [New York Times](#). (Late Edition (East Coast)). New York, N.Y.: Feb 17, 1997. pg. 41
Source Type: Newspaper
ISSN/ISBN: 03624331
ProQuest document ID: 11066972
Text Word Count: 1910
Article URL: http://gateway.proquest.com/openurl?url_ver=Z39.88-2004&res_dat=xri:pqd&rft_val_fmt=info:ofi/fmt:kev:mtx:journal&genre=article&rft_dat=xri:pqd:did=000000011066972

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The opening of the CBOT's new trading floor on Feb 18, 1997 is discussed. While the floor is ready for traders and brokers to use the latest technology, the truth is that most have no intention of doing so for now.

Full Text (1910 words)

Copyright New York Times Company Feb 17, 1997

It's hoopla time at the Chicago Board of Trade, where what is proudly billed as "the world's largest trading floor" opens for business Tuesday morning. The new trading hall will be home to as many as 8,000 traders, brokers and support staff members.

Board of Trade officials say the advanced technology should help the exchange maintain its longtime ranking as the world's leading futures and options marketplace.

In fact, though, the new trading floor is not really a showcase of the cutting edge in trading technology. While the floor is ready for traders and brokers to use the latest technology, the truth is that most have no intention of doing so for now. Trading on Tuesday will not look much different from trading last week, because the new floor is less a showcase than a reminder that the deployment of new technology is often retarded by the conflicting agendas, experience and fears of the people who will use it.

The Board of Trade's chairman sees the new arrangement as a starting point that could accelerate technological changes there. "The new floor creates an environment to get people to think less defensively about technology,"

said Patrick Arbor, the chairman.

Ambivalence about new technology shaped the project from the very beginning. Early on, Board of Trade officials, sensitive to member criticism that the entire project was too ambitious, declined to invest \$150,000 for a **virtual reality** mock-up of the new room. Mock-ups are a new but increasingly common architectural tool that compared with an old-fashioned model, gives clients a much truer perspective of how a room will look inside. But it all sounded too futuristic for Board of Trade officials. Only after the pits were constructed did members find problems with sightlines and other features that sparked bitter complaints and some revisions.

"There's a lot of what's been done here that can't be explained except by referring to their traditions," said Charles Kinsey, chief executive of Space Management Programs Inc., the Chicago-based interior architect for the \$182 million Board of Trade project and numerous other exchange building projects around the world.

Those traditions start with "open outcry" trading, in which futures and options contracts on everything from corn to Treasury bonds change hands via shouted and hand-signaled bids and offers. Impenetrable to outsiders even when trading is calm -- and downright frightening when markets are moving fast -- it is a muscular world rooted in the 19th century, when the Board was created to trade corn contracts.

Open outcry bears little outward resemblance to newer computer-based methods of trading where office-bound brokers and traders armed with sophisticated mathematical models and surrounded by screens of news and price information make deals with unseen counterparts as likely to be in Tokyo or London as across town.

If where you sit in computerized trading is irrelevant, where you stand in open outcry systems is crucial. Brokers on the top rung at the outside of a pit have clear sightlines to booths at the edge of the trading floor from which they receive orders via **hand signals**. They also enjoy easier access than those in the pits to runners bringing information from other sources. They can also see the whole pit more easily, giving them an advantage in filling orders.

Top-rung real estate at the Board of Trade's pits goes by general consensus to brokers with seniority and a track record of generating business in the pit. Many such brokers are reluctant to encourage the development of wireless communications and trading systems that could level the playing field for those deeper in the pit. They find allies for their position among traders in the pit who count on them for business.

Over time, every pit develops a delicate ecology of relationships that new technology is bound to upset. It is an ecology so expensive and difficult to create from scratch these days that most new exchanges developed in recent years reside entirely on computers. But where it exists, open outcry is prized for making prices equally visible to all players.

"There are all sorts of competing business interests within an exchange but there always seems to be a very strong sentiment of it ain't clearly broke don't fix it," said Daniel Rappaport, chairman of the New York Mercantile Exchange, which plans to move to its new trading floor at the edge of New York harbor on Memorial Day.

For a time starting in the late 1980's, the common wisdom in trading circles was that for all their benefits open outcry systems were destined to go the way of the dinosaur. Where pit traders traditionally had the best seat for taking the pulse of the market, the advantage was shifting to office traders with easy access to news services and other information that drives prices. Some trading floors, like the [London Stock Exchange](#), gradually became deserted as trading shifted to computers.

The Board of Trade pursued a wide range of actions aimed at sustaining pit trading, including investing in electronic systems that would handle some of its products during hours when the pits were closed.

The most ambitious of those investments, a joint venture with the Chicago Mercantile Exchange and Reuters to start a worldwide computer-based trading system called Globex, floundered both before and after the Board of Trade dropped out in 1994. The other, the Board's more modest Project A network, is growing steadily.

The new floor comes on line at a time when many open outcry markets are thriving and many Board of Trade members feel less compelled to gamble on drastic changes. It was built primarily in response to overcrowding in the oft-renovated pre-World War II room across the street where Treasury bond futures, options and other financial contracts sensitive to changes in interest rates have been traded since the 1970's. These trades have mushroomed in tandem with the national debt.

But many Board of Trade officials felt the building project had to add not just elbow room but better access to

market information (the new room has giant electronic billboards carrying news from several wire services along with trading data) and faster communications among the employees and customers of trading firms. It also had to move everyone closer to paperless trading.

That last goal requires electronic orders and record-keeping from start to finish, including the use of hand-held electronics in the pits. In essence, the people in the pits would have to combat the computer-equipped office traders by tying themselves into computer networks, too. Without such technology to cut costs, speed up trades and record-keeping and provide clearer audit trails, the exchange might survive for decades but would almost certainly continue to lose market share to unregulated, over-the-counter traders.

"We've put in place all the right building blocks with the new floor," claims J. Donald Karmazin, senior vice president of technology at the Board of Trade.

Indeed, the new floor is designed to support the simultaneous use of 20,000 electronic devices, including 12,000 computers, 6,000 wired or wireless phones, and 2,000 video devices. Some 27,000 miles of cable on a service floor underneath the trading floor give member firms the flexibility to organize their voice and data equipment into local networks – and reorganize them on the fly – without venturing on to the crowded trading floor.

For now, though, the only activity close to the long-range technology goal is a pilot project for one firm, a subsidiary of Timber Hill Group of Valhalla, N.Y., to trade extremely small lots of Treasury bond futures with an entirely electronic system that numerous other exchanges and the Commodity Futures Trading Commission have already approved.

And only 14 firms will be initially putting clerks in the pits with devices that receive orders electronically, eliminating the pit brokers' reliance on **hand signals** from booths or paper slips that are now brought in by runners. Just 50 have signed up for wireless headsets although the new room is set up to handle hundreds of calls simultaneously.

Suspicion that technology will cause more harm than good remains rampant. Other exchanges use video cameras to allow traders to see what is going on in other pits and provide the equivalent of instant replay footage in football games to settle disputes about whether a trade was really completed and who the parties were. The danger of such misunderstandings could be much greater in the new room, where pits are as much as 41 feet across, bigger than any the traders are used to.

But fears that such cameras will become an abused instrument of surveillance for government regulators has led the Board of Trade to severely restrict their use.

[Illustration]

Photo. (Agence France-Presse) (pg. 46)

"Buying Bushels in the Digital Age"

Tomorrow, the Chicago Board of Trade wades slowly into the digital age. Instead of using **hand signals** and paper tickets to execute trades, members will have access to computers that do most of the job. But the old-fashioned way of making a transaction takes only about six seconds, so members with a clear line of sight to their clerks may be slow to change. Here is a comparison of the old system and the new one.

OLD WAY

Signaling a Clerk

A trader, officially known as a Futures Commission Merchant, or F.C.M., uses **hand signals** to send an order to buy or sell. The **hand signals** are called flashing

NEW WAY

Electronically Messaging a Computer

The F.C.M. enters the order into a computer known as Comet, for Computer Order Management Entry and Timing. A touch screen is used instead of a keypad to speed the process.

OLD WAY

Watching the Trader

A clerk on the trading floor watches for and interprets the **hand signal**.

NEW WAY

Watching a Screen

The order is transmitted to a computer on the trading floor called an Electronic Clerk, or E.C. A human clerk receives the message.

OLD WAY

Whispering to Broker – The clerk whispers or writes the order for his broker, who makes the trade.

NEW WAY

Whispering to Broker – No change in this step.

OLD WAY

Signal to F.C.M. – The clerk flashes to the F.C.M. confirmation of the order, including the actual price, and this is confirmed with the customer.

NEW WAY

Messaging to F.C.M. – The clerk updates the order on the E.C. screen with the actual price, allowing the F.C.M. to confirm the price with the customer.

OLD WAY

Typing a Record of Exchange – The broker writes a ticket recording the buyer, seller, amount and price of the transaction. This ticket is sent to the F.C.M.

NEW WAY

Recording Exchange Automatically – The updated transaction is transmitted both to Comet and to a so-called back office computer that keeps track of the F.C.M.'s daily trades.

OLD WAY

Matching Tickets Manually – The F.C.M. types the ticket, which will eventually be matched with the ticket provided by the F.C.M. on the other side of the transaction.

NEW WAY

Matching Tickets Electronically – Another computer matches the deal recorded in the trader's account with the account of the trader on the other side of the transaction.

(Source: Chicago Board of Trade) (pg. 46)

Diagrams: "Try Your Hand at a Deal"

The Chicago Board of Trade is updating its trading floor, but the low technology **hand signals** remain. Diagram illustrates signals indicating fractions of a cent. (pg. 41); "Fractions of a Cent" shows the values assigned to the **hand signals** used by traders at the Chicago Board of Trade. (pg. 46)

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